



King County Health Benefits Special Study

King County Auditor's Office

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Study Findings

- King County health cost increases were greater than national averages but comparable to other Washington public employers.
- Hospital services and prescription drug costs largely drive health benefit cost increases for King County.
- King County health coverage is more generous than national averages but comparable to coverage at other Washington public employers.
- King County has taken steps to control costs, but opportunities exist for doing more.



Study Scope

- The study covers:

- ☐ Medical benefits for active, full-time, regular employees (93% of KC employees).

- The study does not cover:

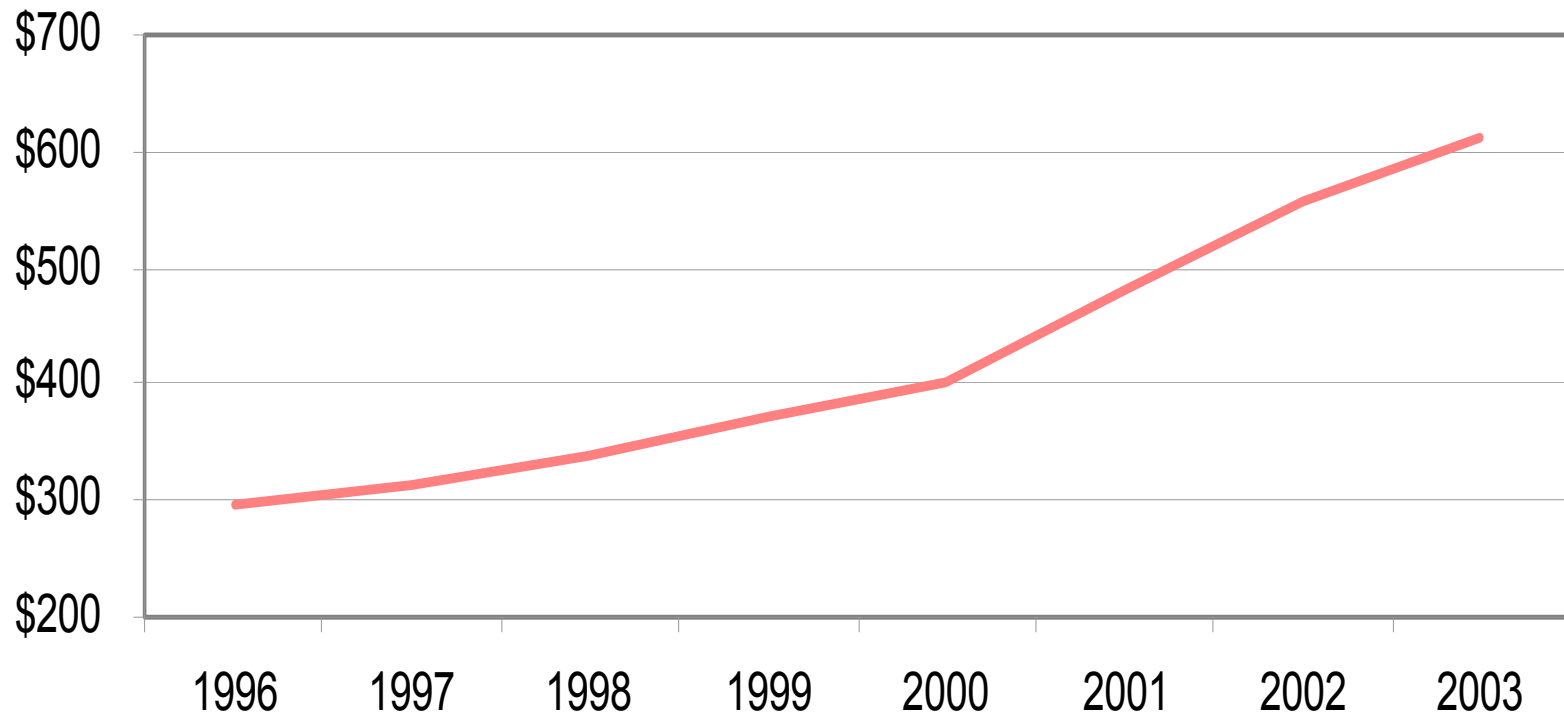
- ☐ Dental, vision, life-insurance, and long-term disability plans (less than 25% of total KC benefit costs).
- ☐ Medical benefits for retirees, part-time workers, and sheriff's deputies.



Background

- KC offers its employees a choice of three standard health plans:
 - **KingCare Basic** and **KingCare Preferred**, which are Preferred Provider Organizations – 79% of KC employees; and
 - **Group Health**, which is a Health Maintenance Organization – 20% of KC employees.

Monthly Health Benefit Flex Rate





Health Benefit Study Issues

1. **Cost trends** – how King County compares to other employers.
2. **Cost drivers** – what drives King County's costs.
3. **Benefits package** – how King County compares to other employers.
4. **Best practices for controlling costs** – what best practices exist, and how King County is implementing them.



Issue 1 – Health Benefit Cost Trends

- King County Compared to Employers Nationally
 - Comparison Categories
 - All Employers
 - Jumbo Employers (5000+ employees)
 - Western Region
 - State and Local Government
- King County's average annual cost growth from 2000 to 2003 exceeded the national average in all comparison categories.



Issue 1 (cont.) – Health Benefit Cost Trends

- King County Compared to WA public employers
 - Comparison Jurisdictions
 - Cities – Bellevue, Everett, Seattle
 - Counties – Pierce, Snohomish
 - State of Washington
- King County's cost increases were below the average for the survey group in 2001 and only slightly above the average in 2002 and 2003.



Finding 1

- King County's health cost increases have been greater than national averages but comparable to increases at other Washington public employers.



Issue 2 – Health Benefit Cost Drivers

- Hospital Services – 52% of total increase
 - Reduced competition due to hospital system mergers
- Prescription Drugs – 31% of total increase
 - Increase in number of prescriptions being issued
 - Escalating cost of drugs
 - Direct-to-consumer advertising
 - Consolidation in the pharmaceutical industry



Finding 2

- The rising cost of hospital services and prescription drugs is driving health benefit cost increases for King County.

Issue 3 – Health Benefits Package

■ Metrics

- **Deductibles** – payment required from plan members before insurance pays all or a percentage of the remaining cost.
- **Copays** – payment required from plan member at the point of service.
- **Out-of-Pocket Maximums** - the maximum amount a plan member may be required to pay for services in a calendar year.
- **Premium Sharing** - the extent to which employer and employee share responsibility for monthly health care contributions.

Issue 3 (cont.) – Health Benefits Package


■ **King County Health Benefits Package**

- **Deductibles** – less than the national median but equal to the median for Washington public employers.
- **Copays:**
 - For PPO – lower than the national median, equal to the median for Washington public employers.
 - For HMO – higher than the medians for both national and Washington public employers.
- **Out-of-Pocket Maximums** – in line with those at other Washington public employers.
- **Premium Sharing** – most employers nationally require premium sharing, but the most common arrangement among Washington public employers is no premium sharing.



Finding 3

- King County's health coverage is more generous than national averages but comparable to coverage at other Washington public employers.



Issue 4 – Best Practices for Controlling Health Benefit Costs

■ **Three promising areas:**

- ☐ Encouraging consumerism among plan members.
- ☐ Managing prescription drug benefits.
- ☐ Managing chronic diseases.



Issue 4 (cont.) – Encouraging Consumerism

- Education is key; plan design changes alone will not create a consumer-focused culture.

King County and Consumerism

- King County does not currently have an employee education program that promotes consumerism.



Issue 4 (cont.) – Managing Rx Benefits

- Tiered Pharmacy Benefit Designs – Provide incentives for choosing less expensive drugs.

King County and Rx Benefit Management

- King County's tiered pharmacy benefit design is similar to the average nationwide and among large Seattle employers.
- HRD estimates that the tiered system will save almost \$6 million over the 2003-2005 contract period.



Issue 4 (cont.) – Managing Diseases

- 68% of health care spending is consumed by 10% of health plan members.
- Disease management promotes cost-effective options for treating chronic conditions through intervention and education.

King County and Disease Management

- King County implemented one disease management program in 2003.



Finding 4

- King County has taken steps to control costs that are consistent with industry best practices, but opportunities exist for doing more.



Recommendation

- HRD should continue to pursue best practices that have been shown to control health benefit costs. These include:
 - Expanding education to ensure employees become better health care consumers;
 - Broadening the disease management program to include more chronic diseases; and
 - Becoming actively involved in setting county-driven goals for the disease management program.



Conclusion

- KCAO wishes to thank the management and staff of the Department of Executive Services and specifically of the Office of Benefits and Well-Being.